



IN REPLY REFER TO

**DEFENSE CONTRACT AUDIT AGENCY**  
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PIC 730.5.20.1

23 March 1999  
99-PIC-034(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Revisions to Standard Audit Program Steps for Accomplishing Mandatory Annual Audit Requirement (MAAR) No. 9**

Based on recent input received from the field, we have revised the standard audit program steps to clarify the requirements for accomplishing MAAR No. 9 for incurred cost audits. The current audit steps require the auditor to review the contractor's reconciliation of total labor to the payroll tax return, IRS Form 941. However, guidance on accomplishing MAAR No. 9 differs from this audit step. CAM 6-406.2a(6) states:

Reconcile payroll totals (dollar value and hours) with totals of related labor cost distribution records. This reconciliation attests that the labor charges to contracts represent actual paid or accrued costs and that such costs are appropriately recorded in the accounting records. Completion of this will help satisfy the mandatory annual audit requirement relating to payroll/labor distribution reconciliation and tracing (MAAR 9).

As can be seen from the above, MAAR No. 9 as described in CAM does not require reconciling total labor to payroll tax returns, IRS Form 941. Experience at a number of major contractors shows that this reconciliation is a time-consuming process, and one which is more appropriately conducted as part of a system review than as part of an annual incurred cost audit. Therefore, this reconciliation should not be a required step for all incurred cost audits and should be performed only when determined necessary based on auditor judgement and the assessed level of risk. For example, the auditor should request the contractor to perform this reconciliation as part of:

- a major contractor incurred cost audit when a contractor's labor system has been determined to be inadequate or inadequate in part due to deficiencies found in the contractor's payroll preparation and payment control activities, or
- a nonmajor contractor incurred cost audit **except** when the auditors have performed a labor system review and determined the payroll preparation and payment control activities to be adequate.

This reconciliation should also be performed as part of the payroll preparation and payment portion of the labor system review (CAM 5-912 and 6-406).

PIC 730.5.20.1

SUBJECT: Revisions to Standard Audit Program Steps for Accomplishing Mandatory Annual Audit Requirement (MAAR) No. 9

We have enclosed the approved changes to APOVER70, Audit Program for Incurred Costs - Major Contractors and NMAPINCR, Audit Program for Annual Incurred Cost Audits at Nonmajor Contractors. In addition, CAM 3-1S2(d) and 6-406 will be revised accordingly.

Please direct any questions to Ken Saccoccia, Program Manager, Incurred Cost Division, at 703-767-2250, fax 703/767-2283, or E-mail: DCAA-PIC@dcaa.mil.

Robert DiMucci

for Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosures - 2

1. Approved revisions to APOVER70, Audit Program  
for Incurred Costs - Major Contractor Locations
2. Approved revisions to NMAPINCR, Audit Program for  
Annual Incurred Cost Audits At Nonmajor Contractors

DISTRIBUTION: C

# Approved Changes to Standard Audit Programs for Accomplishing MAAR No. 9

## Audit Program for Incurred Costs - Major Contractor Locations (APOVER70 Version 4.5)

### C. PRELIMINARY STEPS

1. Review the contractor's proposal. The submission must be accompanied by an overhead certification, and the following data should either be included with the indirect rate proposal (mobile audits) or be available in the contractor's files:

~~g. Reconciliation of total salaries and wages per FICA return (IRS form 941) to total direct and indirect labor plus paid leave per books and submission. (MAAR #9)~~

5. Prepare the following reconciliations:

e. MAAR #9: Reconcile payroll totals (dollar value and hours) with totals of related labor cost distribution records. The auditor should have the contractor reconcile total salaries and wages to payroll tax returns (IRS Form 941) if the contractor's labor system has been determined to be inadequate or inadequate in part due to deficiencies found in contractor's payroll preparation and payment control activities.~~Review the contractor's reconciliation of payroll tax returns to total labor. Identify direct labor total for reconciliation of (fringe benefit and) overhead base(s). Trace labor reconciling items to the appropriate ledger. (CAM 6-406.2a(6) CAM 7-1404)~~

# Approved Changes to Standard Audit Programs for Accomplishing MAAR No. 9

## Audit Program for Annual Incurred Cost Audits At Nonmajor Contractors (NMAPINCR Version 2.3)

### E. FIELD WORK

2. Complete the reconciliation MAARs. Summarize the results of this effort, and note whether any areas require further analysis in other field work audit steps or identify accounts which should be considered in preparing the transaction testing plan.

c Reconcile payroll totals (dollar value and hours) with totals of related labor cost distribution records. The auditor should also have the contractor reconcile total salaries and wages to payroll tax returns (IRS Form 941) unless a labor system review has been performed and the payroll preparation and payment control activities were found to be adequate. Reconcile total direct and indirect labor from cost accumulation records to payroll tax returns and the general ledger (or review the contractor's reconciliation).(MAAR 9)